To: McCabe, Janet[McCabe.Janet@epa.gov]
From: Anne Steckel
Sent: Thur 10/24/2013 2:18:56 PM
Subject: RE: Meeting request from the National Biodiesel Board
MAIL_RECEIVED: Thur 10/24/2013 2:48:36 PM

Thanks Janet, I appreciate the email. Best number to reach me on is my cell (b) (6) [redacted].

Thanks

Anne

From: McCabe, Janet [mailto:McCabe.Janet@epa.gov]
Sent: Thursday, October 24, 2013 12:10 AM
To: Anne Steckel
Subject: Re: Meeting request from the National Biodiesel Board

Anne--so sorry not to have gotten back to you myself, though I think Chris or Karl might have been in touch? I will try to give you a call tomorrow--my calendar has just been jam packed since we've been back--towards the end of the day is likely to be better.

From: Anne Steckel <asteckel@biodiesel.org>
Sent: Wednesday, October 23, 2013 11:52:26 AM
To: McCabe, Janet
Cc: Beauvais, Joel; Atkinson.emaily@epa.gov
Subject: RE: Meeting request from the National Biodiesel Board

Ms. McCabe,

Trying to circle back to see if you have a few minutes this week to meet.

Thank you in advance.

Anne

Anne Steckel

Vice President, Federal Affairs

National Biodiesel Board

1331 Pennsylvania Ave. NW #505

Washington, DC 20004

O: 202.737.8801

C: [redacted]

From: Anne Steckel
Sent: Tuesday, October 15, 2013 3:47 PM
To: 'mccabe.janet@epa.gov'
Cc: 'Beauvais.joel@epa.gov'; 'Atkinson.emaily@epa.gov'
Subject: Meeting request from the National Biodiesel Board

Ms. McCabe,

We hope you are well.

The National Biodiesel Board would like to meet with you to discuss the RFS and the 2014 volumes. Do you have any time the week of October 21st?

The purpose is to help you gain better insights into the biodiesel industry and discuss the importance of 2014 volumes.

We would appreciate the opportunity to meet with you.

Thank you,

Anne

Anne Steckel

Vice President, Federal Affairs

National Biodiesel Board

1331 Pennsylvania Ave. NW #505

Washington, DC 20004

O: 202.737.8801

C: [redacted]

Meekins, Tanya

From:	David Marchick <David.Marchick@carlyle.com>
Sent:	Thursday, October 24, 2013 9:48 AM
To:	Minsk, Ron (Ronald_E_Minsk(b) (6) [redacted]; McCabe, Janet
Subject:	FW: OPIS End of Day Ethanol Assessment Report

FYI

-----Original Message-----
From: SCARGLE, THOMAS J [mailto:THOMAS.SCARGLE@pes-companies.com]
Sent: Thursday, October 24, 2013 9:44 AM
To: David Marchick; MCSHANE, JOHN B; RINALDI, PHILIP L
Subject: FW: OPIS End of Day Ethanol Assessment Report

Last night's report. Today E13 RINS are trading at 26.

-----Original Message-----
From: opisethanol@opisnet.com [mailto:opisethanol@opisnet.com]
Sent: Wednesday, October 23, 2013 5:34 PM
To: OPIS Ethanol Updates
Subject: OPIS End of Day Ethanol Assessment Report

SPOT ETHANOL ASSESSMENT

	LOW HIGH	AVG
Chicago	$1.9600-$2.0300	$1.9950
Chicago Rule 11	$2.0200-$2.0400	$2.0300
New York	$2.1200-$2.1800	$2.1500
Gulf Coast	$2.0800-$2.1100	$2.0950
Dallas	$2.1600-$2.1900	$2.1750
Tampa	$2.2500-$2.3000	$2.2750
Phoenix	$2.2300-$2.2400	$2.2350
Nebraska	$1.9700-$2.0100	$1.9900
Pac NW (1-5 days)	$2.1800-$2.2200	$2.2000
S.F. (90.1 1-5 days)	$2.2400-$2.2700	$2.2550
L.A. (90.1 1-5 days)	$2.2400-$2.2700	$2.2550
L.A. (90.1 6-15 days)	$2.2000-$2.2500	$2.2250

SPOT SME BIODIESEL ASSESSMENT

	LOW HIGH	AVG
Chicago	$4.4500-$4.5800	$4.5150
Gulf Coast	$4.3000-$4.4000	$4.3500
New York	$4.3000-$4.4000	$4.3500

ETHANOL RIN CREDITS

	LOW HIGH	AVG
2012	$0.2600-$0.2900	$0.2750
2013	$0.2700-$0.3000	$0.2850
2014	$0.2750-$0.3000	$0.2875

CELLULOSIC RIN CREDITS (EPA Waiver Calculation)

	LOW HIGH	AVG
2012	$0.7700-$0.7900	$0.7800
2013	$0.4150-$0.4250	$0.4200

BIODIESEL RIN CREDITS

	LOW HIGH	AVG
2012	$0.4200-$0.4700	$0.4450
2013	$0.4700-$0.5100	$0.4900
2014	$0.5700-$0.6100	$0.5900

ADVANCED BIOFUEL RIN CREDITS

	LOW HIGH	AVG
2012	$0.3700-$0.4400	$0.4050
2013	$0.4200-$0.4600	$0.4400
2014	$0.4500-$0.5400	$0.4950

CALIF. LOW CARBON FUEL STANDARD

	LOW HIGH	AVG
Carbon Credit ($/MT)	$83.000-$87.000	$85.000
Carbon Intensity Pts ($/CI)	$0.0068-$0.0071	$0.0070

Note: Market commentary for the above spot assessments will follow this e-mail shortly. The assessment values shown above are final for the day.

To: Minsk Ron[Ronald_E_Minsk(b) (6) [redacted] McCabe, Janet[McCabe.Janet@epa.gov]
From: David Marchick
Sent: Mon 10/21/2013 9:50:57 PM
Subject: Fwd: OPIS End of Day Ethanol Assessment Report
MAIL_RECEIVED: Mon 10/21/2013 9:51:07 PM

FYI

Sent from my iPhone

Begin forwarded message:

> **From:** "SCARGLE, THOMAS J" <THOMAS.SCARGLE@pes-companies.com>
> **Date:** October 21, 2013 at 5:48:19 PM EDT
> **To:** David Marchick <David.Marchick@carlyle.com>, "MCSHANE, JOHN B" <JOHN.MCSHANE@pes-companies.com>
> **Subject: Fwd: OPIS End of Day Ethanol Assessment Report**
>
> FYI
>
> Sent from my iPhone
>
> Begin forwarded message:
>
> > **From:** <opisethanol@opisnet.com>
> > **Date:** October 21, 2013 at 5:32:47 PM EDT
> > **To:** OPIS Ethanol Updates <opisethanol@announce.opisnet.com>
> > **Subject: OPIS End of Day Ethanol Assessment Report**
> >
> > SPOT ETHANOL ASSESSMENT
> > LOW HIGH AVG
> > Chicago $2.0000-$2.0800 $2.0400
> > Chicago Rule 11 $2.0600-$2.0900 $2.0750
> > New York $2.1600-$2.1750 $2.1675
> > Gulf Coast $2.1300-$2.1700 $2.1500
> > Dallas $2.2200-$2.2600 $2.2400
> > Tampa $2.3200-$2.3700 $2.3450
> > Phoenix $2.3000-$2.3400 $2.3200
> > Nebraska $2.0500-$2.0800 $2.0650
> > Pac NW (1-5 days) $2.2800-$2.3300 $2.3050
> > S.F. (90.1 1-5 days) $2.3100-$2.3400 $2.3250
> > L.A. (90.1 1-5 days) $2.3100-$2.3400 $2.3250
> > L.A. (90.1 6-15 days) $2.2800-$2.3100 $2.2950

SPOT SME BIODIESEL ASSESSMENT

	LOW HIGH	AVG
Chicago	$4.5600-$4.7000	$4.6300
Gulf Coast	$4.4500-$4.5500	$4.5000
New York	$4.4500-$4.5500	$4.5000

ETHANOL RIN CREDITS

	LOW HIGH	AVG
2012	$0.2850-$0.3150	$0.3000
2013	$0.2950-$0.3200	$0.3075
2014	$0.3050-$0.3150	$0.3100

CELLULOSIC RIN CREDITS (EPA Waiver Calculation)

	LOW HIGH	AVG
2012	$0.7700-$0.7900	$0.7800
2013	$0.4150-$0.4250	$0.4200

BIODIESEL RIN CREDITS

	LOW HIGH	AVG
2012	$0.4500-$0.5200	$0.4850
2013	$0.5100-$0.5400	$0.5250
2014	$0.5600-$0.6700	$0.6150

ADVANCED BIOFUEL RIN CREDITS

	LOW HIGH	AVG
2012	$0.3800-$0.4400	$0.4100
2013	$0.4200-$0.4600	$0.4400
2014	$0.4500-$0.5600	$0.5050

CALIF. LOW CARBON FUEL STANDARD

	LOW HIGH	AVG
Carbon Credit ($/MT)	$82.000-$85.000	$83.500
Carbon Intensity Pts ($/CI)	$0.0067-$0.0069	$0.0068

Note: Market commentary for the above spot assessments will follow this e-mail shortly. The assessment values shown above are final for the day.

****

To: Minsk, Ron ([redacted] McCabe, Janet[McCabe.Janet@epa.gov]; Deputy Administrator[62Perciasepe.Bob73@epa.gov]
From: David Marchick
Sent: Thur 10/3/2013 3:34:55 PM
Subject: FW: ***RINs' Values Hit Multi-Month Lows on Murmurs, Speculation from Washington
MAIL_RECEIVED: Thur 10/3/2013 3:35:09 PM

FYI

-----Original Message-----
From: SCARGLE, THOMAS J [mailto:THOMAS.SCARGLE@pes-companies.com]
Sent: Thursday, October 03, 2013 11:08 AM
To: David Marchick; MCSHANE, JOHN B; RINALDI, PHILIP L
Subject: FW: ***RINs' Values Hit Multi-Month Lows on Murmurs, Speculation from Washington

FYI.

-----Original Message-----
From: opisalerts@opisnet.com [mailto:opisalerts@opisnet.com]
Sent: Thursday, October 03, 2013 10:55 AM
To: OPIS Price Watch Alert
Subject: ***RINs' Values Hit Multi-Month Lows on Murmurs, Speculation from Washington

2013-10-03 10:55:14 EDT
***RINs' Values Hit Multi-Month Lows on Murmurs, Speculation from Washington

Prices for 2013 D6 ethanol RINs have moved to multi-month lows this morning, with some sellers liquidating their holdings on fears that EPA could cut some blending thresholds.

Various scenarios heard among refiners and their "well-connected" advisors in Washington talk about a number of possible scenarios. One consultancy has reportedly suggested that the 2014 requirement for corn ethanol blending might be reduced by 1-billion gallons. But other scenarios talk of no change in the ethanol blending, a slight increase in advanced bio requirements and an overall reduction in the total RFS requirement. In any case, there is no certainty about pending government action, so the market is moving on noise rather than a clear signal.

OPIS did confirm transactions for 2013 D6 RINs at 36.5cts, 37cts and 38.5cts this morning in a busier-than-usual trade. October began with a plunge in these numbers to below 40cts, but Tuesday and Wednesday trading saw numbers recover to as much as 42-44cts.

- Tom Kloza, tkloza@opisnet.com

****

To: Deputy Administrator[62Perciasepe.Bob73@epa.gov]; Ron Minsk[Ronald_E_Minsk(b) (6) [redacted]
McCabe, Janet[McCabe.Janet@epa.gov]
From: David Marchick
Sent: Wed 9/18/2013 2:12:11 AM
Subject: RINS closed at $.49 today
MAIL_RECEIVED: Wed 9/18/2013 2:12:41 AM

Presumably market reaction to NYT article. Apparently traders think that the article was so troubling that policy makers have to act, therefore those that have bought and/or are holding RINS decided to sell. We'll see if prices continue to go down.

Hope you are well and will keep you updated.

Dave

Sent from my iPad
****

To: Deputy Administrator[62Perciasepe.Bob73@epa.gov]; McCabe, Janet[McCabe.Janet@epa.gov]; 'rminsk@(b) (6) [redacted]
From: David Marchick
Sent: Tue 9/17/2013 1:14:21 AM
Subject: RINs
MAIL_RECEIVED: Tue 9/17/2013 1:14:30 AM

The price dropped today into the high/mid-50s, presumably because of the NYT article. Presumably the market interpreted the article as increasing the likelihood of some type of relief from either the EPA or Congress.

In my view, the importance of the article - even with many inaccuracy - points to something we have discussed in the past - the need to create a "cushion" below the blend wall so that traders can't hoard RINS in order to create scarcity and force the price up.

Dave
****

To: Deputy Administrator[62Perciasepe.Bob73@epa.gov]; Ron Minsk(b) (6) [redacted]
McCabe, Janet[McCabe.Janet@epa.gov]; Gene Sperling(b) (6) [redacted]
From: David Marchick
Sent: Sun 9/15/2013 10:22:44 AM
Subject: RINS in NYT today
MAIL_RECEIVED: Sun 9/15/2013 10:22:55 AM

Wall St. Exploits Ethanol Credits, and Prices Spike

By GRETCHEN MORGENSON and ROBERT GEBELOFF

It was supposed to help clean the air, reduce dependence on foreign oil and bolster agriculture. But a little known market in ethanol credits has also become a hot new game on Wall Street.

The federal government created the market in special credits tied to ethanol eight years ago when it required refiners to mix ethanol into gasoline or buy credits from companies that do so. The idea was to push refiners to use the cleaner, renewable fuel, or force them to buy the credits.

A few worried that Wall Street would set out to exploit this young market, fears the government dismissed. But many people believe that is what happened this year when the price of the ethanol credits skyrocketed 20-fold in just six months, according to an analysis of regulatory documents and interviews with more than 40 people involved in the market, including industry executives, brokers, traders and analysts.

Traders for big banks and other financial institutions, these people say, amassed millions of the credits just as refiners were looking to buy more of them to meet an expanding federal requirement. Industry executives familiar with JPMorgan Chase's activities, for example, told The Times that the bank offered to sell them hundreds of millions of the credits earlier this summer. When asked how the bank had amassed such a stake, the executives said they were told by the bank that it had stockpiled the credits.

A spokesman for JPMorgan, when asked about the exchange with the executives, disputed the account, saying the bank does not trade ethanol credits for a profit in the way it trades other securities, but is registered to deal in credits through its energy business. From time to time, the spokesman, Brian J. Marchiony, said in a statement that the bank also purchased credits "on behalf of clients who need to fulfill their E.P.A.-mandated obligations," though it had not done so in the past year.

But other market participants, including Thomas D. O'Malley, chairman of PBF Energy in Parsippany, N.J., identified JPMorgan Chase and other financial institutions as being active sellers of the credits this year. He said the institutions had helped transform an environmental program into a profit machine, contributing to the market frenzy this year. "These things were designed to monitor the inclusion of ethanol in the gasoline pool," Mr. O'Malley said. "They weren't designed to become a speculative item. For the life of me I can't see the justification for it."

While banks are by no means the largest player in ethanol credits, Wall Street's activity in this market reflects a larger effort by financial institutions to exert their influence over loosely regulated markets for basic commodities, from aluminum to oil. The opacity of the ethanol credit market makes it difficult to determine the extent to which large financial actors have profited.

The banks say they have far less influence in the market than others are suggesting, and are doing nothing wrong. But the activities, while legal, could have consequences for consumers. In the end, energy analysts say, the outcome will be felt at the gas pump — as the higher cost of the ethanol credits gets tacked onto the price of a gallon of gasoline. (The credits, which cost 7 cents each in January, peaked at $1.43 in July, and now are trading for 60 cents.)

The Valero Energy Corporation, a refiner that owns thousands of gas stations, says the squeeze in ethanol credits might cost it $800 million. PBF Energy, also a refiner, puts its bill at about $200 million. A review by The Times of a federal registry of nearly 1,500 businesses and individuals in the renewable fuel market found big Wall Street banks as well as a handful of people with troubled legal histories among the participants. Several high-profile cases of fraud have emerged.

Scott Mixon, the acting chief economist of the Commodity Futures Trading Commission, said in an interview Friday that the issue of banks' involvement in this market was something the agency was tracking and might look into more deeply because of the ethanol component. The commission regulates the commodities futures market, including trading in ethanol and gasoline.

Though the ethanol credits are traded by many major investment houses, they were created not on Wall Street but in Washington, on Capitol Hill and at the Environmental Protection Agency. At its inception, the so-called Renewable Fuel Standard was promoted as a means to reduce the nation's reliance on foreign oil, fight global warming and provide a boost to farmers. The rules call for a set amount of ethanol, most of which is made from corn, and other renewable fuels to be blended with fossil fuels each year, with quotas assigned to individual refiners and importers.

Every time they mix ethanol into gas, or import fuel already blended with ethanol, energy companies get a credit from the government, and that credit can be sold to other companies that don't blend ethanol to help them meet federal requirements. If refiners fall short of their obligation, they can face fines of $32,500 a day. To monitor compliance, each gallon of ethanol is assigned a 38-digit Renewable Identification Number, or RIN. Six billion of them were generated in the first six months of this year.

The E.P.A. makes sure participants comply with the fuel standard. But rules that apply to almost every other market — on transparency, disclosure and position limits, for example — are not imposed on the trade of RINs, making Wall Street's role harder to gauge.

If Wall Street traders take a 5 percent stake in a public company's stock, for instance, they are required by law to flag that they have acquired a sizable stake in a filing with the Securities and Exchange Commission. There is no such obligation for traders buying RINs.

Like JPMorgan, other big banks downplay their involvement, contending that they are in the market primarily because their firms, through subsidiaries and other arrangements, have ownership interests in gasoline and other energy production and therefore are required to participate in the federal renewable fuels program.

Until 1999, regulations barred banks from owning nonfinancial companies like commodities operations. This was meant to keep banks from self-dealing or pursuing monopolistic practices in their financial operations that could benefit their nonfinancial affiliates. Separating these operations, regulators believed, would also protect a bank's core lending and deposit-taking businesses from risky trading by nonfinancial units. Those restrictions fell by the wayside with the passage of the Gramm-Leach-Bliley Act, which struck down Depression-era banking laws. Now, however, the Federal Reserve is reviewing commodities ownership by banks.

In the case of JPMorgan, the industry executives familiar with its activities in the RINs market said they were told by a top banker in its commodities operation about the stockpiling. The executives said the banker maintained that one of JPMorgan's traders had urged the bank to buy up every available credit. The executives spoke on the condition of anonymity for fear of harming business relationships.

Through a spokesman, the banker denied that the conversation took place. Mr. Marchiony, the JPMorgan spokesman, characterized the report as a misunderstanding. He denied the bank had stockpiled the credits. He added that the bank mainly dealt in RINs as a byproduct of its joint venture with a refiner in Philadelphia. "The fact of the matter is, we simply don't trade RINs, nor do we carry an inventory other than a marginal amount for compliance purposes," the statement said.

Morgan Stanley also generates RINs through TransMontaigne, a subsidiary with 21 blending facilities, and it trades the credits via the Morgan Stanley Capital Group. According to regulatory filings, TransMontaigne's biggest customer for its energy products is the commodities unit of the Morgan Stanley Capital Group, a trading operation that runs out of the former Texaco headquarters in Purchase, N.Y.

Mark Lake, a spokesman for Morgan Stanley, said that the firm had not benefited from the increase in RIN prices in 2013. "The firm's obligation to purchase RINs as part of our importing and blending of gasoline exceeded the RINs we have received from our wholesale business," he said.

Mr. Lake declined to discuss Morgan Stanley's holdings of RINs or to say whether the bank's traders used market information received from TransMontaigne.

Trading on information gleaned from a subsidiary like TransMontaigne would be illegal in the stock market, but there are no rules against it in commodities. (Morgan Stanley also holds a stake Heidmar Holdings, of Norwalk, Conn., which owns a fleet of oil tankers.)

Saule T. Omarova, an associate professor of law at the University of North Carolina at Chapel Hill, said Morgan Stanley's overlapping activities illustrate how large financial institutions have become deeply entwined in every aspect of the commodities markets.

"In the trading chain between the oil well and the gas station," Ms. Omarova said, "Morgan Stanley is clearly accumulating as many stakes along the way as possible because that is what gives them the most flexibility of control."

Seizing an Opportunity

The market in ethanol credits is exactly the kind Wall Street loves: opaque, lightly regulated and potentially very lucrative.

Officials at the E.P.A., which oversees the market, say they have seen no evidence of improper trading, like hoarding, in the market. But they do not police the RIN market as a financial regulator would.

"If there were any evidence now or in the future that that was happening, we have the ability to amend the regulation to constrain that," said Christopher Grundler, director of E.P.A.'s office of transportation and air quality, which oversees the renewable fuels program.

It is difficult for outside groups, or even other regulators and law enforcement agencies, to keep tabs on the market, because the E.P.A. declines to disclose who actively trades the credits, or how much they trade, citing the confidentiality of refiners and other participants.

Trading is a private affair, usually conducted by phone, and just about anyone can participate. In creating the market, the E.P.A. says it did not limit the market for RINs to refiners and other energy companies because it wanted to encourage a free market.

Price movements on other commodities futures are limited by the exchanges on which they trade as a check on speculation. But the biofuel credits are not traded on an exchange: their prices are unbridled. And, unlike in the broader financial industry, no formal qualification or license is required before a broker can start trading.

"There is a RINs trading desk at any major brokerage now," said Paul Niznik, bio-fuels manager for Hart Energy, based in Houston. "There are people who are not refiners that are buying and selling RINs like a commodity. They treat it like something to be traded, to be day-traded."

The RINs story began in 2005, when the Bush administration joined Democrats in Congress to pass an energy bill mandating renewable fuel standards. That law was broadened in 2007 to establish requirements for the amount of biofuel to be blended into gasoline annually through 2022. This year, refiners and importers are required to blend 13.8 billion gallons of ethanol, up from 13.2 billion last year. For 2014, the figure is 14.4 billion.

But the estimates Congress used about how much gas Americans would keep buying were wrong. When the biofuel credits were created, gasoline consumption was projected to grow 6 percent by 2013. But thanks in large part to the recession and more fuel-efficient cars, consumption has actually fallen.

As a result, refiners this year began hitting what is known as "the blend wall," meaning that the amount of ethanol the government is requiring them to use is close to the maximum amount that can be blended into gasoline without creating problems for gas stations and motorists.

Distributing gasoline with greater levels of ethanol is more costly and corrodes gas station pumps and tanks. Raising the ethanol level in gasoline, therefore, would require gas stations across America to install new systems. Therefore, refiners have turned to RINs to meet their government obligations rather than blend more ethanol into gasoline.

Some say financial players saw it coming, and jumped into the market.

"When you see something change as rapidly as this, somebody's hoarding them, somebody's buying them, somebody's making big bucks," said Senator Thomas A. Coburn, Republican of Oklahoma, a big oil state. After his staff examined the run-up in prices this summer, he said he was concerned that "big moneyed interests" were gaming the credits.

For now, companies like Valero say that they are eating the cost of high RIN prices, which are still eight times more expensive than they were in January. But industry analysts, executives and even researchers at the investment banks predict the cost of the RINs' surge will be passed along to consumers by increasing the price of gasoline, if not later this year then next year.

Mr. O'Malley, the chairman of PBF Energy, likens the outcome to a hidden tax on the public. Unlike other taxes, which go to the government, this one goes to the speculators.

Double-Dipping on Credits

Every day, RINs are born in places like Fort Lauderdale, Fla., Chesapeake, Va., and Bainbridge, Ga. Across a network of 45 fuel terminals in the Southeast, and along the Mississippi and Ohio rivers, Morgan Stanley's TransMontaigne stores, blends and distributes gasoline and other fuels.

Even though it is based in Denver, TransMontaigne sits at the center of a powerful Wall Street energy operation. It delivers 200,000 barrels of refined petroleum products each day, just under 2.5 percent of the total market, and plays a role in the RINs market in addition to any trading its parent, Morgan Stanley, might do. Morgan Stanley bought TransMontaigne in 2006.

For banks, trading RINs for clients can be lucrative. A big reason is that the credits are far more difficult to buy and sell because they are not traded on exchanges like stocks. As a result, the difference between the price at which one party is willing to sell and another is willing to buy is unusually wide. Those fat spreads mean big money for anyone serving as a middleman.

At a hearing in late July at the Commodity Futures Trading Commission, Mr. Mixon, the commission's acting chief economist, estimated that RIN spreads were 4 percent of a transaction's value. That is far more than the average stock commission.

In addition to Morgan Stanley and JPMorgan Chase, other big banks, like Citigroup and Barclays, are also registered with the E.P.A. to trade the credits.

Edward Westlake, an analyst at Credit Suisse, said many big financial firms have gone beyond RINs trading and pushed into blending fuel to create them as well. "Building a tank and blending doesn't cost a lot of money," Mr. Westlake said, "and there are folks on Wall Street who own tanks who are benefiting from the RINs."

Bank research departments are also trying to pique investor interest in this market. Goldman Sachs and Bank of America Merrill Lynch recently published bullish reports on the market. In July, Morgan Stanley published a report predicting that RIN prices would keep rising — and eventually cause gas prices to spike later this year.

Officials at the E.P.A. do not see excessive influence by financial speculators. They suggest the price spikes in RINs this year reflect the expectation of a shortage of the credits because rising renewable fuel mandates are occurring as consumer demand for gasoline is falling. "The market is expecting this future scarcity as the statutory mandates continue to increase," Mr. Grundler said.

Others say that prices are up mostly because the oil industry has refused to invest in renewable energy. For example, Jeremy Martin, a clean energy expert for the Union of Concerned Scientists, said many of the complaints about the credits come from industry players who want to see the renewable fuels program killed.

"It was meant to change behavior, and it was understood that if it was to be binding, RIN prices would not be close to zero," Mr. Martin said.

In fact even before RINs took off, they had become a contentious issue within the energy industry. Ethanol producers like the renewable fuel standards because they essentially guarantee a market for their product. But refiners — particularly those without operations to blend the fuel — regard the standards as an onerous and unnecessary business cost.

The Impact at the Pump

Margo T. Oge, who oversaw the creation of the ethanol credit program at the E.P.A., says that the rising price of RINs — no matter the cause — is good news and an indication that the program's goals are being met.

As the credits get more expensive, she says, oil and gas companies have a financial incentive to add more ethanol to fuel rather than buy credits. That, in turn, reduces oil imports and emissions — which was the point of creating the system in the first place.

Ms. Oge, who retired from the E.P.A. last year and is now a visiting scholar at the International Council on Clean Transportation, a research group in Washington, said RINs were never supposed to affect the price of gasoline at the pump. If that is the result of the price run-up this year, as many energy analysts predict, it would be an unwelcome outcome, she said.

"The last thing we wanted in implementing this program is to get price increases for the consumer," she said.

Even beyond the likely rise in gasoline prices, critics of the RINs market say it is deeply flawed, and they do not share Ms. Oge's optimistic takeaway of this year's market frenzy.

First, by allowing anyone to trade, including those with no real interest in energy, the E.P.A. encouraged speculation, the critics say. Second, the market operates largely in the dark, leaving it vulnerable to manipulation. Third, and perhaps most significant, the federal requirement for ethanol in gasoline means oil companies are captive buyers — meaning they are required to buy the credits when they do not or cannot blend their own fuel — a fact that savvy traders use to their advantage.

"The problem the E.P.A. had is they opened up the market on the trading side, but restricted it on the obligated side to refiners and importers," said Lawrence J. Goldstein, the former president of the Petroleum Industry Research Foundation, a nonprofit bipartisan group.

Analysts and others say the market is vulnerable to questionable practices like short squeezes, where prices are pushed up by holders of the credits to benefit their positions.

"Anybody who's participating in these markets has the opportunity to throw their weight around," said David J. Hackett, president of Stillwater Associates, a transportation energy consulting firm. "Whether it's a hedge fund or a refiner or ethanol producer, they would tend to drive the market in directions that are beneficial for whatever their goals."

An examination by The Times of participants registered with the E.P.A. found several people with troubled pasts, including one who was accused of helping run a Ponzi scheme, and another who pleaded guilty to illegal storage of hazardous waste.

The RINs market has come off the boil recently, but at 60 cents apiece the credits still cost far more than they did at the beginning of the year. While the E.P.A. says the market is sound, W. David Montgomery, an economist at Nera Economic Consulting, a unit of Marsh & McLennan, said the agency should install an overseer.

The E.P.A. disagrees, but said it was considering providing more data on who trades and holds RINs and had instituted a voluntary certification system for participants.

"We are exploring things like increasing the regularity of updating the transactional data system and providing more information about production volumes," Mr. Grundler, the E.P.A. official, said. "All are aimed at increasing confidence in this market and increasing compliance, which is our major concern."

But Tom Kloza, an analyst at the Oil Price Information Service, a leading source of petroleum pricing, said the potential for abuse will not disappear on its own.

"You could conceivably have a company in the middle holding millions of RINs," Mr. Kloza said. "Any entity could have a 1, 2 or 5 percent market share in RINs and is waiting to sell them at some explosive gain. I wonder, who's got the score card?"

Sent from my iPad

To: McCabe, Janet[McCabe.Janet@epa.gov]; Ron Minsk[(b) (6) [redacted] Deputy Administrator[62Perciasepe.Bob73@epa.gov]
From: David Marchick
Sent: Sat 9/14/2013 11:36:53 AM
Subject: Latest Wall Street Research on RINS
MAIL_RECEIVED: Sat 9/14/2013 11:37:02 AM
REFINT091213-135851 (2).pdf
ATT00001.txt

FYI - fairly pessimistic but representative view in the attached.

Hope all of you are well.

Dave

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< CONFIDENTIALITY NOTICE >

September 12, 2013

Equity Research

WELLS FARGO SECURITIES

Additional Thoughts On The Ethanol Blendwall

How Biodiesel May Become More Important

Independent Refiners

- **Key Takeaways.** We attended a Hart Energy sponsored presentation titled "*How To Hang On Through 2014*" which focused on biofuels (ethanol and biodiesel), the Renewable Fuel Standard (RFS) and Renewable Identification Number (RINs) costs. Their conclusions are that the odds of definitive congressional action are low in the near-term (5% chance to affect the RFS for 2014) but decent for the medium-term (50/50 chance to affect the RFS for 2015). However, they see congressional action as absolutely required to ultimately fix the RFS – an outcome with which we completely agree. They expect the EPA will adjust the 2014 ethanol volume mandate close to the blend wall, but leave a healthy gap expected to be filled by biodiesel. Thus biodiesel prices (or their raw components such as palm oil and other vegetable oils) could experience significant upwards price pressure in 2014 in our opinion. Finally, they anticipate that RINs compliance costs will almost certainly continue to present a challenge to obligated parties (i.e., refiners) in 2014 and possibly in 2015 if Congress fails to act. If the RFS is not altered by 2016, the entire refining sector will likely fall into noncompliance with unsettling and unpredictable outcomes likely. We do not expect that outcome, but we cannot fully dismiss it either.
- **Our Take.** As we have stated in several recent industry notes, we believe there is a growing groundswell of opposition to the RFS as currently structured and increasing momentum to act. It would be ideal if it would occur before year end 2013, but that appears to be a strategy more consistent with hoping as opposed to planning. We had not previously given much consideration to the impact on biodiesel markets given the lack of problems there and the much smaller size. However, the potential for the RFS to lean more heavily on biodiesel and biodiesel-generated RINs in 2014/2015 could lead to higher demand for vegetable oils (via both domestic and imported sources) and higher prices. At this time it is unclear exactly how much higher raw material prices would affect retail gasoline and diesel prices in 2014/2015. However, higher prices are generally negative for demand and could also impinge refining margins.
- **RINs Prices More Stable Recently.** Following the EPA's August 6, 2013 announcement that it acknowledged the challenges of the blend wall and would be likely to make adjustments to the 2014 ethanol mandate, RINs prices have been fairly stable at approximately $0.70/ RIN. At this level, RINs costs are clearly impacting refining margins, but at least volatility has declined.
- **Biodiesel Positioned To Plug The Gap.** Hart's presentation indicated that they expect the EPA to issue a waiver equivalent to 1.75 billion gallons of biofuel in 2014. For the biodiesel sector to generate these volumes may require meaningful imports of biodiesel in 2014.
- **Expanded Ethanol Blends As A Relief Valve?** As we noted in our last RFS-related report, *Refining: Could Ethanol Legislation Catch "A Ride?"* August 29, 2013, selling fuels with higher blends of ethanol E15 (15/85 blend of ethanol/gasoline) have been lackluster even in the corn belt. Expanding E85 (85/15 ethanol/gasoline blend) sales volumes are also touted as a solution, but E85 suffers from several challenges including lack of customer awareness, a too small discount to gasoline relative to its energy content and distribution challenges. Another longer-term challenge to selling more E85 volumes is it does not work well in the wintertime in cold climes. Thus during the winter months E70 (70/30 ethanol/gasoline blend) must be substituted for E85.

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Please see page 2 for rating definitions, important disclosures and required analyst certifications
All estimates/forecasts are as of 09/12/13 unless otherwise stated.

Required Disclosures

Additional Information Available Upon Request

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O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
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As of: September 12, 2013

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To: Minsk Ron[(b) (6) [redacted] Deputy Administrator[62Perciasepe.Bob73@epa.gov]; McCabe, Janet[McCabe.Janet@epa.gov]
From: David Marchick
Sent: Thur 8/15/2013 2:18:16 AM
Subject: Fwd: OPIS End of Day Ethanol Assessment Report
MAIL_RECEIVED: Thur 8/15/2013 2:18:26 AM

FYI.

Sent from my iPhone

Begin forwarded message:

> **From:** "SCARGLE, THOMAS J" <THOMAS.SCARGLE@pes-companies.com>
> **Date:** August 14, 2013, 2:58:39 PM PDT
> **To:** "RINALDI, PHILIP L" <PHILIP.RINALDI@pes-companies.com>, David Marchick <David.Marchick@carlyle.com>
> **Subject: FW: OPIS End of Day Ethanol Assessment Report**
>
> fyi
>
> -----Original Message-----
> From: opisethanol@opisnet.com [mailto:opisethanol@opisnet.com]
> Sent: Wednesday, August 14, 2013 5:30 PM
> To: OPIS Ethanol Updates
> Subject: OPIS End of Day Ethanol Assessment Report

SPOT ETHANOL ASSESSMENT

	LOW HIGH	AVG
Chicago	$2.2950-$2.3050	$2.3000
Chicago Rule 11	$2.3450-$2.3600	$2.3525
New York	$2.5500-$2.5800	$2.5650
Gulf Coast	$2.3450-$2.3650	$2.3550
Dallas	$2.4000-$2.4400	$2.4200
Tampa	$2.5000-$2.5400	$2.5200
Phoenix	$2.4800-$2.5000	$2.4900
Nebraska	$2.2000-$2.2700	$2.2350
Pac NW (1-5 days)	$2.4500-$2.4700	$2.4600
S.F. (90.1 1-5 days)	$2.4700-$2.5200	$2.4950
L.A. (90.1 1-5 days)	$2.4700-$2.5200	$2.4950
L.A. (90.1 6-15 days)	$2.4500-$2.5000	$2.4750

SPOT SME BIODIESEL ASSESSMENT

	LOW HIGH	AVG
Chicago	$4.7500-$4.9500	$4.8500

Gulf Coast	$4.8100-$4.9200	$4.8650
New York	$4.8200-$4.9300	$4.8750

ETHANOL RIN CREDITS

	LOW HIGH	AVG
2012	$0.7200-$0.7400	$0.7300
2013	$0.7400-$0.7600	$0.7500
2014	$0.7400-$0.7600	$0.7500

CELLULOSIC RIN CREDITS (EPA Waiver Calculation)

	LOW HIGH	AVG
2012	$0.7700-$0.7900	$0.7800
2013	$0.4150-$0.4250	$0.4200

BIODIESEL RIN CREDITS

	LOW HIGH	AVG
2012	$0.8200-$0.8600	$0.8400
2013	$0.8700-$0.8900	$0.8800
2014	$0.9100-$0.9600	$0.9350

ADVANCED BIOFUEL RIN CREDITS

	LOW HIGH	AVG
2012	$0.8000-$0.8300	$0.8150
2013	$0.8300-$0.8500	$0.8400
2014	$0.8500-$0.9000	$0.8750

CALIF. LOW CARBON FUEL STANDARD

	LOW HIGH	AVG
Carbon Credit ($/MT)	$64.000-$66.000	$65.000
Carbon Intensity Pts ($/CI)	$0.0052-$0.0054	$0.0053

Note: Market commentary for the above spot assessments will follow this e-mail shortly. The assessment values shown above are final for the day.

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To: McCabe, Janet[McCabe.Janet@epa.gov]; Deputy Administrator[62Perciasepe.Bob73@epa.gov];
'rminsk(b) (6) [redacted]
From: David Marchick
Sent: Fri 8/9/2013 1:17:30 PM
Subject: RINS final close yesterday
MAIL_RECEIVED: Fri 8/9/2013 1:17:42 PM

Settlement posted $.67 v. anticipated $.65. Apparently it takes a while for the official trade to close as they use a type of weighted average to post the number.
Also, there is a WSJ editorial today on the exemption for one refinery - it is circulating like hotcakes.
Apparently many refiners are not happy about the waiver for one refinery. My gut is that conservatives on the hill will use this as an issue. Wanted to give you a heads up.

Dave
****

To: McCabe, Janet[McCabe.Janet@epa.gov]; Minsk, Ron
(b) (6) [redacted]; Deputy Administrator[62Perciasepe.Bob73@epa.gov]
From: David Marchick
Sent: Thur 8/8/2013 3:40:01 PM
Subject: FYI
MAIL_RECEIVED: Thur 8/8/2013 3:40:19 PM

Rins are bouncing between 60 and 75 cents today.

Article below provides good insight into why the trade associations were so negative – they want legislative change, and if they seem happy with EPA rule, then pressure for legislation dissipates.

Bid to Repeal Ethanol Mandate Seen Diluted by EPA Change

By Laura Litvan - Aug 8, 2013 12:00 AM ET

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Corn ethanol producers say a pledge by U.S. regulators to lower the level of renewable fuel use required next year may deflate a well-funded oil industry effort aimed at persuading Congress to repeal the mandate.

Ethanol supporters say the U.S. Environmental Protection Agency showed it can adjust to market needs with its Aug. 6 announcement that it will lower an 18.15 billion-gallon mandate for 2014 because demand for gasoline has lagged expected levels. That could slow momentum building in Congress for tougher action, they say.

“To a large extent, the effort in Congress probably lost a little wind in its sails,” said Bob Dinneen, president of the Renewable Fuels Association in Washington, whose members include Archer-Daniels-Midland Co. (ADM) and Pacific Ethanol Inc. (PEIX)

The EPA’s announcement, which was paired with an agency decision to give refiners an additional four months to reach 2013 goals, came as lawmakers in both chambers of Congress are preparing for a fight over whether to alter the mandate first established in 2007.

The debate over the renewable fuel standard puts the ethanol industry, which once had rock-solid support for its mandates and tax preferences, on the defensive.

Demand for gasoline and U.S. production of next-generation sources of fuel have lagged behind what was projected six years ago, and refiners complain that they could be forced to blend in more than 10 percent of ethanol, which they say isn’t safe for all engines.

Advertising Blitz

The American Petroleum Institute began an advertising blitz last month designed to build pressure for a repeal of the federal biofuel rule, with TV, radio and print ads that focus on potential costs to consumers. One print ad says the higher ethanol mandate “could damage your engine, and void your warranty. Your engine won’t like it, but your mechanic will.”

Bob Greco, director of API’s downstream group, said the EPA’s action this week underscores how unrealistic the current mandate is, and his group will redouble efforts to convince lawmakers to provide some relief. API represents refiners and oil producers including Exxon Mobil Corp. (XOM) and Chevron Corp. (CVX)

“These are band-aids that will help fix this, but the statute itself is fundamentally broken,” Greco said.

In both chambers, some lawmakers are calling for changes to the mandate. At a hearing of the House Energy and Commerce Committee last month, lawmakers in both parties said there may be enough support to make some changes, although there probably isn’t enough for a full repeal.

Slipping Support

The panel’s chairman, Republican Representative Fred Upton of Michigan, has asked a handful of lawmakers from his party -- including Representatives John Shimkus of Illinois and Lee Terry of Nebraska -- to examine which revisions should be considered.

Support for producers of the biofuel already has slipped. In June 2011, 33 Senate Republicans voted with Democrats in favor of eliminating a tax credit and a tariff that subsidize ethanol production.

While that didn’t become law, with little fanfare at the end of that year the 45-cent-a-gallon tax credit for ethanol blenders expired, as did a 54-cent-a-gallon tariff on imports.

The declining political allegiance to ethanol, once required for political gains in rural states, also was on display in the 2012 Republican presidential campaign, where for the first time support for corn-based biofuels wasn't much of a factor.

Iowa Caucuses

Rick Santorum, who won the Iowa caucuses, relied far more on his support from religious conservatives than his backing of biofuels. Mitt Romney, the eventual Republican presidential nominee and an opponent of long-term government subsidies for the fuel, came in second, whileRon Paul, another subsidy foe, took third. Newt Gingrich, who had the highest rating on farm policy from the Iowa Corn Growers Association, took fourth.

Groups protecting the interests of ethanol producers say that as the oil industry engages in a consumer awareness campaign, their lobbying is centered more on one-on-one talks with lawmakers.

"We continue to talk to congressmen," said Pam Johnson, a corn and soybean farmer outside Floyd, Iowa, who is president of the Corn Board of the National Corn Growers Association. "We need to show them we need a long-term plan. We don't need a short-sighted move to repeal the RFS because we want them to take the long-term big picture view of what's necessary for fuels in this country."

Beneficial Gridlock

Ethanol groups also say they can look to the EPA's show of flexibility to aid them.

"What the EPA did was send a strong signal to Congress that they have the administrative flexibility to adjust these volume goals accordingly," said Michael Frohlich, a spokesman for Growth Energy, which represents ethanol producers and is led by Poet LLC, the nation's largest biofuels maker.

At the same time, a Congress that hasn't been able to agree on cutting budget deficits also appears incapable of doing much with environmental policy, he said.

Splits in Congress over the issue were evident this week.

Senator Tom Carper, a Delaware Democrat, said the decision "sends a strong signal to our refineries that the EPA is listening to their concerns and working responsibly to address them."

The biggest defender of ethanol standards in Congress, Republican Senator Charles Grassley of Iowa, a major corn-growing state, said he'll fight any attempt to curb the standard.

Grassley Defense

"The RFS has already led to significant environmental, economic and national security gains," Grassley said in a statement. "The promise of the next generation of biofuels will add even more. But that's only if we protect the existing supportive policies and work to provide greater certainty for this burgeoning industry. I intend to do just that."

At the same time, other lawmakers who have advocated outright repeal or broad revisions said they'll press ahead.

Representative Bob Goodlatte, a Virginia Republican, and Senator James Inhofe, an Oklahoma Republican, called for an end to the biofuel requirement.

In a letter to President Barack Obama, Senator David Vitter of Louisiana, the top Republican on the Environment and Public Works Committee, urged the administration to waive the 2014 biofuel mandates altogether to buy time for Congress to make broad changes.

"The premise and structure of the RFS were based on many assumptions that no longer reflect the current market conditions," Vitter wrote in the Aug. 1 letter that was also signed by Inhofe and Senator Mark Pryor, an Arkansas Democrat.

Revise Statute

Jason Bordoff, director of Columbia University's Center for Global Energy Policy, said while the battle moves to Congress, it's unclear what any new mandate might look like and whether there's enough momentum for action.

"It would be cleaner for Congress to revise the statute to fix the problem in the first instance," Bordoff said. "The tension is that the more flexible EPA is, the more pressure it might remove from Congress to in fact take the steps to fix the blend-wall problem through legislation."

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To: McCabe, Janet[McCabe.Janet@epa.gov]; Minsk, Ron
(b) (6) [redacted] Deputy
Administrator[62Perciasepe.Bob73@epa.gov]
From: David Marchick
Sent: Thur 8/8/2013 12:45:43 PM
Subject: RINs official close last night
MAIL_RECEIVED: Thur 8/8/2013 12:46:00 PM

Ethanol RINs settled at $.74 last night. Biodiesel Rins were at $.92.

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